



UNIVERSITY OF
BIRMINGHAM

Annual Accounts 2008/09

We are focused on excellence. Our financial strength will enable us to embark on an investment programme to establish Birmingham as one of the world's great universities.

Mr Michael Gilbert, University Treasurer





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Vice-Chancellor's Report

Great universities evolve. In that sense, we are truly Darwinian institutions. We evolve to meet the challenges of the day, to forge new ideas, and to shape the future. At the same time, we preserve what defines universities as places of learning, as engines of research, and as centres of learning, teaching, and professional development.

In 2008/09 the world was transformed through global economic convulsions. The after-shocks will be felt for years to come, not least in higher education where constraints on public spending will mean an end to growing investment and force many universities to confront hard choices. Of course Birmingham is not immune from these challenges, but we are better placed than most to reposition ourselves and to prosper academically, even in difficult circumstances. We can do this because the University has been wisely managed, been realistic and far-sighted in its planning, and has generated the means to invest in its future. We will now make bold and balanced judgements on where to invest, where to consolidate, and where to disinvest in order to, not merely secure our future, but to turn a fine university into an outstanding one.

In facing the future we take great heart from what has been achieved in 2008/09. This was a year of significant change for the University, with a team of new academic leaders taking up their positions around the University top table and at the head of the new College structure. It has, of course, also been a year of change for me, as I left the Higher Education Funding Council for England and joined this great University in April 2009. The new senior team has far reaching ambitions for Birmingham's future, and that sense of ambition is widely shared across the University.

Whatever universities are, they are certainly not ivory towers. All that we do is subject to rigorous external evaluation. During 2008/09 the Research Assessment Exercise identified that 90% of Birmingham's research activity had international impact, and that in a number of areas, the quality and impact of our research work is exemplary. Research in the areas of Cancer Studies, Primary Care, Psychology, Music and Sports Science, in particular, were ranked amongst the foremost in the country. The results placed Birmingham 12th in the UK, based on 'research power': a measure which considers both the quality and quantity of research activity. Nevertheless, we have ambitions to rise higher in this national ranking and have purposeful plans which will enable us to achieve this.

The Quality Assurance Agency institutional audit, which assesses the quality of academic systems at UK universities, confirmed 'confidence' in our teaching quality and standards. More importantly, the findings commended much that we do, including our widening participation activities and our learning and student support, which were identified as examples of best practice in the sector.

We were delighted to learn that the University is host to the first in a chain of new Cancer Research UK research institutes, and we are proud that we continue to play a leading role in improving the life chances of those battling cancer in its many forms. In December 2008 we were awarded £20m to host the national hub for STEM education (Science, Technology, Engineering and Mathematics), which will be nested within the College of Engineering and Physical Sciences. These disciplines will hold the key to many of the challenges that we face locally and globally. Therefore, measures that enhance the teaching of these subjects and increase the recruitment into STEM will have a far reaching benefit.



Vice Chancellor's Report

Investment in the campus continues to preserve and enhance one of our greatest assets. The refurbished Muirhead Tower is a model of what can be achieved, providing state-of-the-art learning facilities, a home for faculty and postgraduates in social sciences, quality facilities for the University's special collections, and a hugely-successful 'Starbucks' coffee bar, all in a now iconic building. Alongside the glamorous, we do the necessary but unglamorous. We have begun work on the University's vital subways, to ensure that key services across the historic part of our estate are maintained and robust. It is easy to ignore long-term maintenance, and to leave the next generation to pick up the tab. We will avoid such irresponsibility.

In 2008/9 we have also taken steps to extend the international footprint of Birmingham. We have established a permanent presence in China, and opened a University office in India. Our permanent staff in these offices will not only continue to support student recruitment, but will work with colleagues in Edgbaston to identify opportunities for international partnerships across Asia and the Indian subcontinent.

These achievements, coupled with sound management mean that Birmingham has emerged from one of the economy's most turbulent years in a position of strength, as these accounts will demonstrate. Hereafter, our challenge is two fold: we will ensure the University's long term financial security, and we will utilise our financial position to make a step change in the expansion of academic excellence.

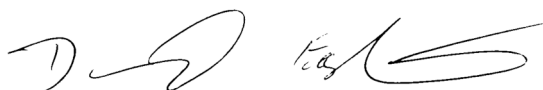
We will invest in areas of existing academic strength. Over the course of the forthcoming year we will begin work on the new Music building in Chancellors Court. Made possible through the philanthropy of our alumni and donors, this will be a state-of-the-art home for our leading Music School.

We will identify the new opportunities that emerge at the interdisciplinary boundaries. Two areas of research have already been identified for significant investment in the forthcoming year. Computational Neuroscience and Cognitive Robotics examines the interaction between the human mind and artificial intelligence. Metamaterials creates materials for numerous applications that appear to defy the natural laws. We shall invest almost £3m up-front into those areas to ensure their successful launch.

We will also support the initiatives that enable Birmingham to realise its local, national, and global ambitions. Discussions to identify international partners in the USA and Australia will be advanced during 2009/10, and our online presence will be rebuilt, taking advantage of interactive technologies, delivering an authentic Birmingham experience anywhere in the world.

We will work with University staff and Council over the forthcoming year to establish a University Strategic Framework for the future, which will come into force as the current Strategic Plan (2005-10) concludes. This framework will continue a single minded pursuit of excellence and will link our investment decisions to our intention to attract outstanding staff and students, increase our research funding and deliver an excellent educational experience.

The future for Birmingham is bright, but we do have an obligation to take some bold decisions, to be ambitious in our thinking, and seize this opportunity to reposition the University for the future. The decisions we take in the next two years will shape our University for a decade and more.



Professor David Eastwood
Vice-Chancellor and Principal

Treasurer's Report

Introduction

I have pleasure in presenting my report on the financial statements which comprise the consolidated results of the University and its subsidiary undertakings listed in note 32.

I reported last year that we can look back on a long history of financial strength. 2009 continues this trend but we are still mindful of significant financial pressures emerging, such as pensions, pay, infrastructure and utilities against a back drop of slowing income flows. I said last year that the team were up for the challenge of dealing with the strain being put on the hitherto strong position. This report, coupled with the commentary by the Vice-Chancellor indicates how we are dealing with the challenge.

The University is able to operate in a relatively autonomous fashion, having regard for any requirements to fulfil our charitable objectives and any obligations under the Royal Charter by which it was established in 1900, to the Higher Education Funding Council for England (HEFCE) or other regulatory bodies within the Sector.

We are a member of the Russell Group and therefore one of the twenty prestigious and research intensive Universities in the UK and also a member of Universitas 21 – a global alliance of twenty-one Universities. The U21 network's purpose is to facilitate collaboration and co-operation between member Universities and to create opportunities for them on a scale that none of them would be able to achieve operating independently or through traditional bilateral alliances.

International reputation and recognition remain important indicators of success. Our continued position as one of the top 100 Universities in the world is evidenced by our improved position in the Times Higher World University Rankings to 66th in 2009 from 75th in 2008 and 90th in 2006. We remained in the top 100 in the 2009 Shanghai Jaio Tong ranking too.

Financial Overview

Our financial strategy and monitoring continues to be driven by a number of key financial indicators of which the most significant are:

- the need to generate a continuing recurrent surplus to support long-term financial sustainability;
- a continuous capital investment in the University's estate, facilities and IT infrastructure in support of the University's Strategic Plan; and
- the maintenance of an adequate cash flow to support the working capital needs of the University and its capital and other investment needs.

The financial results for the last three years demonstrate the University's positive performance against those indicators:

	2006/07	2007/08	2008/09
Income	£388.7m	£411.6m	£441.0m
Operating surplus for year	£16.9m	£18.4m	£25.1m
Surplus as percentage of income	4.3%	4.5%	5.7%
Cash generated from operating activities	£27.3m	£9.9m	£72.0m
Average cash balance held during year	£52.3m	£66.3m	£70.4m
Capital expenditure (excluding equipment)	£44.3m	£60.3m	£32.4m

Treasurer's Report

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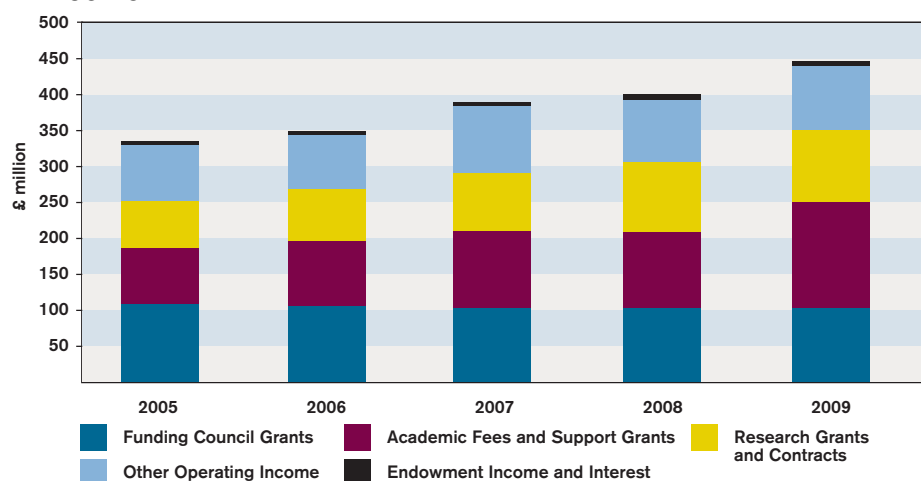
The results in 2008/09 continued to build on the underlying trend of financial strength, which is indicated in the graphs below. The surplus of £25.1m reflects a stronger performance in terms of student recruitment in home and international markets than anticipated, combined with a variety of expenditure savings – both pay and non-pay across many areas of the campus.

The capital expenditure incurred in 2008/09, although lower than the 'historic average level' of spend by around £16m is affected by the timing of various projects. This is reflected by the increase in the level of capital commitments at year end of a very similar sum.

The cash generated from operating activities in 2008/09 was, at £71.5m, significantly greater than previous years. This is due in part to £22m related to capital grants from HEFCE to support the bringing forward of major capital schemes, but also a combination of income growth and general good stewardship over the cost base.

The operating cash flow for the year, which exceeded target, has allowed the University not only to deliver its planned capital spend without recourse to borrowing, but to continue to meet its obligation to the Birmingham Pension and Assurance Scheme (BPAS) and to retain significant cash for academic re-investment in 2009/10 and beyond. This is essential if the University is to strengthen its reputation and influence nationally and globally.

Income

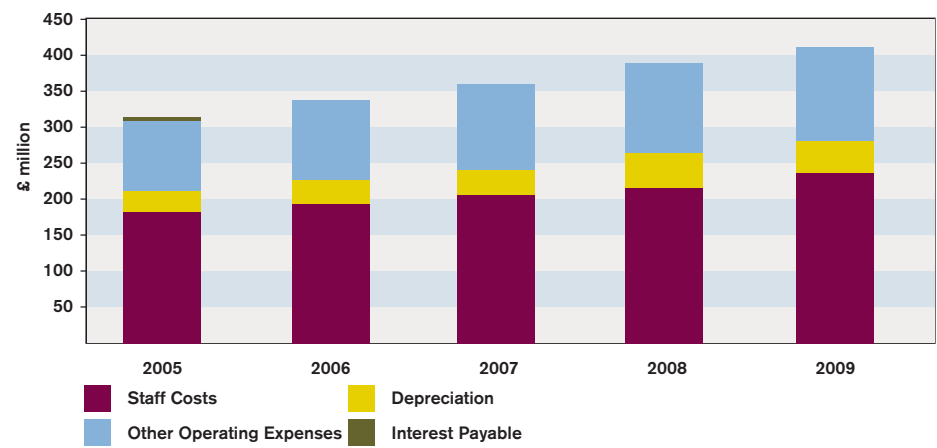


Income growth has been consistent over the last five years with the full effect of increased tuition fees and the growth in research income impacting very positively over that period. In 2009, we secured a record level of awards of £134m, which will roll through as research income in future years.

Treasurer's Report

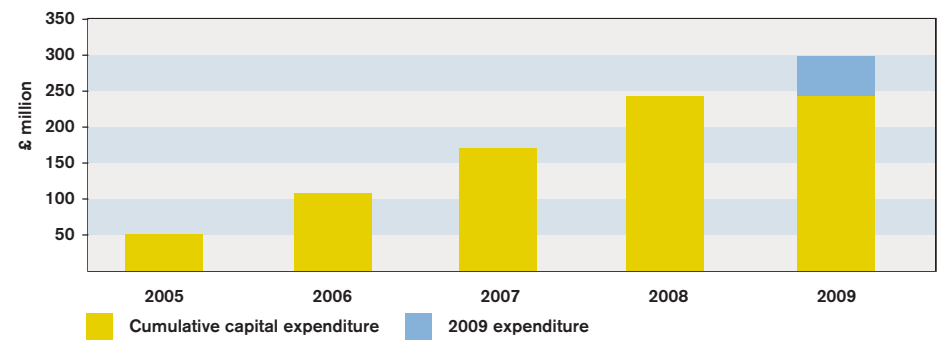
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Expenditure



Staff costs represent between 55%–57% of expenditure over the period and reflect both the salary rises and changes in numbers of staff. Depreciation continues to grow as we continue to invest significant levels of capital each year.

Capital Programme



The five year capital spend on buildings, equipment and facilities has been very significant at £300m to support teaching, research and the all-round student experience.

Treasurer's Report

(continued)

We have a strong commitment to a continuous investment in our estate. It covers 230 hectares, contains some 220 buildings and is insured for £1.4bn. We aim to invest approximately £50m pa in its development and renewal over the long term. Following a condition survey in 2007/08, we identified a substantial level of backlog maintenance. In a genuine attempt to address the issue, the Council has approved the 'smaller, better estate' principle, which will ensure that our campus is optimised in terms of size, usage and environmental impact. Investment will, therefore, be focused to ensure that assets are used effectively and efficiently.

During 2008/09, the refurbishment of the Muirhead Tower was completed within the budget of £47m and has allowed the relocation of much of the College of Social Sciences into one building instead of five sites. The University's special collections are also housed there in a purpose-built, climatically controlled facility, which will improve access and enhance our ability to exhibit and display many fascinating artefacts and publications.

Other significant schemes undertaken in 2008/09 included the continuing programme of refurbishment of student residences and the longer term renewal of campus infrastructure contained within a 3km network of subways around the campus.

In March 2009, HEFCE encouraged institutions to consider bringing forward the delivery of capital projects into 2009/10 and 2010/11. We have committed to delivering three major schemes. The Chancellor's Court Auditorium Project, costing around £16m, will house first class facilities for music and in particular performance space. The project was highly dependent upon securing support from external donors and we are pleased that our target of £5m has now been reached and will mean the project can now proceed. The second scheme is a complete refurbishment of the 1960's Metallurgy and Materials building, which is now no longer fit for purpose, though key to the delivery of our academic plan. This project is estimated to cost £30m. The third project will transform the appearance and energy efficiency of the Gisbert Kapp Building, which is home to Engineering and will cost almost £11m.

Treasury Management

Through its Investment Sub-Committee, the University sets the policy for, and manages both the long term investment portfolio and its short term cash deposits. Both are managed by external providers. For the long term portfolio comprising mainly endowments, the risk/return equation is particularly crucial and this manifests itself in the asset allocation between equities, fixed interest, property and cash investments. Following a review of the propensity for risk, the University shifted the balance of those assets away from equities into other classes in advance of the major 'stock market falls'.

In terms of the short term portfolio, cash deposits are spread across a range of banks and financial institutions with strict limits in terms of their credit ratings, and on the sums placed with any one provider.

The investment income in 2008/09 was close to £7m. Despite the economic climate, the returns from both long and short term investments held up very well. The actual rate of return for short term deposits was 4.1% compared to an average base rate of 2.1% for the year. The actual return for long term investment, although negative at -4.1%, again outperformed the benchmark of -4.6% for portfolios of a similar composition and was considered acceptable given the extreme volatility in markets during the year.

Treasurer's Report

(continued)

Currently, the University has no significant long term borrowing. The policy has been to support academic developments from the cash generated from operating activities supplemented by capital grants by and large from HEFCE. So far, the student residential developments have been supported from the cash received from the sale of assets in 2007/08, but there may be a need for long term finance in the future. The University pays careful attention to the management of working capital and in particular the robust control of debtors and fair treatment of creditors. The policy around payment of suppliers for goods and services is to settle accounts within thirty days of the date of the invoice.

Risks and Opportunities

Clearly, as a large and broadly based University we are presented with many risks and opportunities. The Council's aim is to manage the risks and seize the opportunities.

There is considerable uncertainty around the level of investment in higher education, which might flow from Government sources. Direct support through the HEFCE block grant has been reduced sector-wide from April 2010. In total, the reduction is £180m and will be phased over the 2009/10 and 2010/11 financial years. Indirect support from the public purse, for example from RCUK, Regional Development Agencies and other Government departments, is likely to decline too and this could impact particularly upon our research awards and our ability to enhance the student experience in the future.

We have considered the potential impact of public sector funding reductions for Birmingham in our five year planning and have been developing a model of "sustainable excellence" that articulates clearly our academic ambition and which can be supported in financial terms.

Although recruitment of international students has remained buoyant in 2008/09, it undoubtedly remains a risk for the future. Whilst exchange rates are favourable, students may continue to prefer the UK and, in particular Birmingham, as a destination of choice, but the recruitment trends and patterns are being very carefully monitored. During 2008/09 we established two overseas representative offices, one in India and one in China. Whilst the offices have a broad remit in terms of supporting the University's activities in these key markets, they will also have a positive impact on developing and sustaining market share.

The difficulties arising from declining income sources will be exacerbated by growing cost pressures – especially relating to pay, pensions and energy – all of which have traditionally grown at much faster rates than income. Pay and pensions are currently presenting particular challenges. In October 2008, we implemented the final stage of the 2006 national pay agreement, which increased the annual pay bill by 5%. When coupled with earlier awards the total increase in pay rates since 2006 has exceeded 13%. This significant cost increase is now embedded within the pay base for future planning of this and most other universities. On average, the sector's annual pay bill has risen by 8% per annum for the last five years and this will not be sustainable in the future given current economic pressures.

Treasurer's Report

(continued)

An integral part of pay and reward is pensions and funding issues abound there too. The Universities Superannuation Scheme (USS) has increased the contribution from employers by 2% with effect from 1 October 2009 and has signalled that further increases may be necessary if future pay increases are not curbed.

The University has a Self-Administered Trust – a defined benefit pension scheme – BPAS – which was closed to new members in 2002. The FRS17 deficit has deteriorated by £38.7m to £68.5m at 31 July 2009. The Trustees of the BPAS and Council have been monitoring the position throughout the year and Council has, at the request of the Trustees, strengthened the Covenant to the Scheme by way of a negative pledge over assets and an extended commitment to additional annual contributions subject to the next valuation.

Longevity, investment returns and interest rates all remain issues for BPAS. The next triennial valuation of the scheme will be on 31 March 2010 and the overall funding of the scheme will be re-assessed once the outcome is known later in that year.

Although energy consumption, climate change and environmental issues more generally also present a risk for us, the University's sustainability agenda continues to gather pace. During the year, continued improvements in waste management have placed the University amongst the top five institutions in the Business in the Community (BiTC) indices. The University's Combined Heat and Power plant, which accounts for over 70% of CO₂ emissions, has received accreditation under the international environment standard (ISO14001). Work on a sustainable travel plan, including reducing the University's carbon footprint, is progressing well. Discussion of climate change adaptation requirements has commenced. The University is well placed, not least through the engagement and support of its staff and students, to respond to future challenges. The annual sustainability report is published on the University's website (www.environment.bham.ac.uk).

The University clearly has ambition. We intend to provide a first class experience for students, to undertake more world class research and enhance our international reputation. In achieving those aims we shall recruit and retain the very best staff and students in a campus environment that is enriched by continual investment in buildings, facilities and infrastructure. We do this also with the invaluable commitment of our alumni and other very generous supporters. At the end of October 2009, we successfully launched our 'Circles of Influence' campaign, which aims to raise funds of £60m to push the boundaries of change at local, regional and international level. Alongside vital research into matters affecting both personal and global health – such as cancer, obesity, ageing and carbon efficient energy – the University is also championing cultural enrichment and personal endeavour.

Within our 'Sustainable Excellence' proposals, there are clear investment opportunities which can be resourced given our accumulated financial strength. The message is very clear – this University is well placed to create and develop opportunities to further its academic aspirations, including being among the top world ranking institutions, to be 'better for the best'.

Michael Gilbert BSc, FCA
Treasurer

26 November 2009

Corporate Governance

Members of the Council who served throughout the year ending 31 July 2009, except where indicated otherwise, are listed below

Lay Members appointed by the Council

Dr W J Glover	The Pro-Chancellor	
Dr R M Dancey	Deputy Pro-Chancellor	Retired July 2009
Mr C N Banks CBE	Deputy Pro-Chancellor	Commenced August 2009
Mr M G Gilbert	Treasurer	

Dr S Battle OBE

Ms B Blow

Mrs M Cass

Mrs M Davies

Mr R Halton

Commenced January 2009

Mr D Hartnett CB

Mr G Mackenzie OBE

Ms C McElroy

Mr N Paul

Commenced August 2009

Dr N Price OBE

Mr D Roy, Hon Alderman

Dr S S Sahota OBE

Dr J S Taunke MBE

Ex Officio Members

Professor M Sterling	The Vice-Chancellor and Principal
	Retired March 2009
Professor D Eastwood	The Vice-Chancellor and Principal
	Commenced April 2009
Professor M C Sheppard	The Vice-Principal

Academic Members

Appointed by the Senate

Professor J S Bale	Biosciences
Professor M J Hilton	Modern History
	Commenced February 2009
Professor J M Marshall	Medicine
Professor J K Heath	Biosciences
Dr A D Bullock	Education
	Left University December 2008

Appointed by Guild of Students

Ms J Larbie	President of the Guild of Students	Resigned July 2009
Ms H Lazell	Vice-President, Democracy & Resources of the Guild of Students	Resigned July 2009
Mr F Neuner	President of the Guild of Students	Commenced August 2009
Ms B Jones	Vice-President, Education & Access of the Guild of Students	Commenced August 2009

Secretary to Council

Mr L Sanders	The Registrar and Secretary	Commenced October 2008
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Advisors

External Auditors	KPMG LLP
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Bankers	Lloyds TSB Plc
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Solicitors	Martineau Johnson
(from Panel of)	Mills & Reeve LLP
	Pinsent Masons LLP

Corporate Governance

The following statement is given to assist readers of the Financial Statements to obtain an understanding of the Governance procedures applied by the University's Council.

The University endeavours to conduct business:

- i) in accordance with the seven principles identified by the Nolan Committee on standards in public life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership),

And

- ii) in full accordance with the guidance to the University which has been provided by the Committee of University Chairmen in its 'Guide for Members of Governing Bodies of Universities in England and Wales'.

The Council welcomes the Combined Code on Corporate Governance issued by the London Stock Exchange, particularly as the University is a significant investor in a wide range of listed companies. The University is committed to exhibiting best practice in all aspects of corporate governance and this summary describes the manner in which the University is moving to apply the principles set out in section 1 of the Combined Code.

Summary of the University's structure of Corporate Governance

The University's Council comprises 24 lay and academic persons appointed under the Statutes of the University, the majority of whom are non-executive. The roles of Chairman and Deputy Chairman of the Council are separate from the role of the University's Chief Executive, the Vice-Chancellor and Principal. The matters specifically referred to the Council for decision are set out in the Statutes of the University; by custom and under the Financial Memorandum with the Higher Education Funding Council for England, the Council holds to itself the responsibilities for the ongoing strategic direction of the University, approval of major developments and the receipt of regular reports from Executive Officers on the day-to-day operations of its business and its subsidiary companies.

The Council meets at least four times a year and has several Committees including a Strategy, Planning and Resources Committee, an Audit Committee, a Council Membership Committee and a Remuneration Committee. These Committees are formally constituted with terms of reference and with the exception of the Strategy, Planning and Resources Committee they comprise mainly lay members of Council, one of whom is the Chair. The Strategy, Planning and Resources Committee comprises both academic and lay members of Council, and is chaired by the Vice-Chancellor and Principal.

The Strategy, Planning and Resources Committee recommends to Council a corporate plan for the University, embracing all matters of a long-term, medium-term and short-term nature. It brings together academic, financial and physical planning and monitors the effectiveness of all such plans.

Corporate Governance (continued)

The Audit Committee meets three times annually. The Committee reviews the effectiveness of the University's financial and other control systems, satisfies itself that satisfactory arrangements are in place to promote economy, efficiency and effectiveness and advises the Council on risk management and the effectiveness of the accounting procedures. It reviews the external auditor's report and the scope and effectiveness of the internal auditor's work and advises Council on the appointment of both the Internal and External Auditor. It receives and considers reports from the Higher Education Funding Council for England as they affect the University's business and monitors adherence with the regulatory requirements and reviews the University's annual financial statements together with the accounting policies. Whilst senior executives attend meetings of the Audit Committee as necessary, they are not members of the Committee, and the Committee does meet with the Internal and External Auditors on their own for independent discussions.

The Remuneration Committee meets annually and comprises the Pro-Chancellor, the Treasurer, at least one other lay member of Council and the Vice-Chancellor and Principal. It determines the annual remuneration of professorial and senior administrative staff, having sought comparative information within the University sector and elsewhere.

The Council Membership Committee considers nominations for vacancies in the Council membership under the relevant ordinance.

In addition, the Senate, under the Statutes, is responsible to the Council for regulating and directing the academic work of the University in teaching, examining and research for the award of all Degrees, Diplomas, Certificates and other academic distinctions of the University and for the discipline (whether intra-mural or extra-mural) of the students of the University and for the enforcement of such discipline.

The Council has responsibility for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives, while safeguarding the public and other funds and assets for which it is responsible, in accordance with the responsibilities assigned to the governing body in article 7 of the Charter of Incorporation, Section 9 of the Statutes of the University and the Financial Memorandum with the HEFCE.

Statement of Internal Control

As the governing body of the University of Birmingham, we have responsibility for ensuring a sound system of internal control that supports the achievement of policies, aims and objectives, while safeguarding the public and other funds and assets for which we are responsible, in accordance with the responsibilities assigned to the governing body in the Charter and statutes and the financial memorandum with HEFCE.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the extent and nature of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 July 2009 and up to the date of approval of the financial statements, and accords with HEFCE guidance.

Corporate Governance (continued)

As the governing body, we have responsibility for reviewing the effectiveness of the system of internal control. The following processes have been established:

- Council meet a minimum of four times a year to consider the plans and strategic direction of the institution
- Council receive periodic reports from the Audit Committee concerning internal control, and we require regular reports from managers, either directly or through the Strategy, Planning and Resources Committee, on the steps they are taking to manage risks in their area of responsibility, including progress reports on key projects
- Council have requested the Audit Committee to provide oversight of the risk management process. This provides a formal reporting and appraisal mechanism, in addition to the reports noted above
- The Audit Committee receives regular reports from the Head of Internal Audit, which include their independent opinion on the adequacy and effectiveness of the institution's system of governance, risk management and internal control, together with recommendations for improvement
- A regular formal review takes place to identify and where necessary to revise and update the record of risks facing the institution
- An organisation wide risk register is maintained
- Heads of budget centres have received guidance on how to implement risk management in their own areas of responsibility and how to embed risk management within their normal management practices
- A system of key performance indicators has been developed for the risks contained in the risk register, and residual risks are monitored against these regularly
- Reports are received from budget holders, department heads and project managers on internal control activities via sub committees of Council

Our review of the effectiveness of the system of internal control is informed by the Internal Audit Service, which operates to standards defined in the HEFCE Audit Code of Practice, and which was last reviewed for effectiveness by the HEFCE Audit Service in May 2006.

Our review of the effectiveness of the system of internal control is also informed by the work of the executive managers of the institution, who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports.

Dr W J Glover
Pro-Chancellor

26 November 2009

Responsibilities of the Council

In accordance with the Royal Charter, the Council of the University of Birmingham is responsible for the administration and management of the affairs of the University and is required to present audited financial statements for each financial year.

The Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the University and to enable it to ensure that the financial statements are prepared in accordance with the University Statutes, the Statement of Recommended Practice: Accounting for Further and Higher Education Institutions and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Higher Education Funding Council for England and the Council of the University, the Council, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the University and of the surplus or deficit, cash flows, and total recognised gains and losses for that year.

In preparation of the financial statements, the Council has to ensure that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- it is satisfied that the University has adequate resources to continue in operation for the foreseeable future; for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Council has taken reasonable steps to:

- ensure that funds from the Higher Education Funding Council for England and the Training and Development Agency are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with these bodies and any other conditions which these bodies may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the University and to prevent and detect fraud; and
- secure the economical, efficient and effective management of the University's resources and expenditure.

Dr W J Glover

Pro-Chancellor

26 November 2009

Report of the Auditors

Independent auditors' report to the Council of the University of Birmingham

We have audited the Group and University financial statements (the 'financial statements') of the University of Birmingham for the year ended 31 July 2009 which comprise the primary statements such as the Group Income and Expenditure Account, the Group and University Balance Sheets, the Group Cash Flow Statement, the Group statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and in accordance with accounting policies set out therein.

This report is made solely to the Council, in accordance with the Charter and Statutes of the University. Our audit work has been undertaken so that we might state to the Council those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the University Council and Auditors

The University Council's responsibilities for preparing the Treasurer's Report and the group financial statements in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education, applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Responsibilities on page 16.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education. We also report to you whether income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the University have been properly applied only for the purposes for which they were received and whether, in all material respects, income has been applied in accordance with the Statutes and, where appropriate, with the Financial Memoranda with the Higher Education Funding Council for England and the Training and Development Agency for Schools. In addition we also report to you whether in our opinion the Treasurer's Report is not consistent with the financial statements. We also report to you if, in our opinion the University has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the Treasurer's Report and the Corporate Governance Statement and consider the implications for our report if we become aware of any apparent misstatements within them or material inconsistencies with the financial statements.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Audit Code of Practice issued by the Higher Education Funding Council for England. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the University's Council in the preparation of the financial statements and of whether the accounting policies are appropriate to the Group and University's circumstances, consistently applied and adequately disclosed.

Report of the Auditors (continued)

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- ☐ the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the University and the group as at 31 July 2009 and of the Group's surplus of income over expenditure for the year then ended;
- ☐ the financial statements have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education;
- ☐ in all material respects, income from the Higher Education Funding Council for England, the Training and Development Agency for Schools, grants and income for specific purposes and from other restricted funds administered by the University during the year ended 31 July 2009 have been applied for the purposes for which they were received; and
- ☐ in all material respects, income during the year ended 31 July 2009 has been applied in accordance with the University's statutes and, where appropriate, with the Financial Memoranda with the Higher Education Funding Council for England and the Training and Development Agency for Schools.

MJ Rowley

For and on behalf of KPMG LLP. Statutory Auditor

26 November 2009
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Statement of Principal Accounting Policies and Estimation Techniques

The Accounts for the year ended 31 July 2009

1. Basis of Preparation

The Financial Statements have been prepared on the historical cost accounting basis, modified for the revaluation of certain fixed assets and investments, and in accordance with the Statement of Recommended Practice (SORP) 2007 applicable to Higher and Further Education Institutions and applicable Accounting Standards. They conform to the guidance published by the Higher Education Council for England.

In accordance with FRS 18 these accounting policies have been reviewed by the University's Council and are considered appropriate to the University's activities.

2. Basis of Consolidation

The results of the University's subsidiary undertakings have been consolidated in the financial statements and details of interests in these subsidiary undertakings are provided in note 32 to the Accounts. The University has also interests in a number of spin-out companies which are identified also in note 32.

The financial statements for the University of Birmingham Guild of Students have not been consolidated, as the University has no control or dominant influence over policy decisions. The contribution made by the University to the Guild is shown in note 7 and the aggregate capital and reserves and surplus for the year to 31 July 2009 are shown in note 33.

3. Recognition of Income

The recurrent grant from the Higher Education Funding Council for England represents the funding allocation, which is attributable to the current financial year and is credited direct to the Income and Expenditure Account.

Grants which are applied to acquire tangible fixed assets are credited to deferred grants and released to the Income and Expenditure Account over the estimated useful lives of the relevant assets.

Income from donations, other government grants and other specific grants and research grants and contracts is included to the extent of the expenditure incurred during the year, together with any related contributions towards overhead costs.

All endowment and investment income is credited to the Income and Expenditure Account on a receivable basis. Income from restricted endowments not expended in accordance with the restrictions of the endowment is transferred from the income and expenditure account to restricted endowments. Income from other services rendered is included to the extent of completion of the contract or services concerned and is measured at the fair value of the consideration receivable.

Tuition fees represent student fees received and receivable attributable to the current accounting period.

The University acts as an agent in the collection and payment of training bursaries from Government agencies and of Learning Support Funds from HEFCE. Related payments received from Health Authorities, Research Councils, the Training and Development Agency and HEFCE and subsequent disbursements to students are excluded from the Income and Expenditure Account and are shown separately in note 30. Income from short term deposits is accrued up to the balance sheet date.

4. Taxation

The University is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of Section 506(1) of the Taxes Act 1988. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the Taxes Act 1988 or Section 256 of the Taxation

Statement of Principal Accounting Policies and Estimation Techniques (continued)

The Accounts for the year ended 31 July 2009

of Chargeable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes. Except for its trading activities and certain research and consultancy activities, the University cannot recover the Value Added Tax suffered on its expenditure and this cost is included under the various related expenditure heads.

The University's subsidiary companies are subject to corporation tax and value added tax in the same way as any commercial organisation.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

5. Foreign Currencies

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling either at year-end rates or, where there are related forward foreign exchange contracts, at contract rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

6. Land and Buildings

Land and Buildings are stated at cost, or at valuation if acquired before 31 July 1998.

The University depreciates its buildings on the basis of:

Academic and administrative buildings – 50 years

Residential and commercial buildings – 30 years

The costs of renovating or converting buildings are capitalised and depreciated in accordance with the above basis.

Historic buildings are maintained in such a state that their residual values are not materially different from their book values and hence a nil depreciation charge is made. Land is not depreciated.

Major repairs and refurbishments are capitalised and depreciated over 10 years, where they substantially add to the total area of the building, prolong its useful life or enhance the economic benefits of the building.

Where buildings are acquired with the aid of specific grants they are capitalised and the related grants are credited to deferred grants. The deferred capital grants are released to the Income and Expenditure Account over the useful economic life of the asset.

All buildings are regularly reviewed for indications of impairment. Where there is an impairment, the difference between the assessed recoverable value of the building and its written down cost is charged to the Income and Expenditure Account.

The Transitional rules in FRS 15 have been applied and the book values at implementation have been retained.

7. Equipment

All equipment is capitalised at cost, irrespective of value, and is depreciated over three years on a straight-line basis. Where equipment is acquired with the aid of specific grants, the grant is treated as a deferred capital grant and released to the Income and Expenditure Account over the expected useful economic life of the equipment.

Statement of Principal Accounting Policies and Estimation Techniques (continued)

The Accounts for the year ended 31 July 2009

8. Donated Assets

Where the University receives a donation, bequest or gift with no specific terms attached to its use, it is recorded as income in the income and expenditure account.

Donated buildings and equipment are recognised in the balance sheet and are depreciated over their expected useful life, with corresponding income released from deferred capital grants to the income and expenditure account in line with the University's asset capitalisation policies in paragraph 6 and 7.

Any donated tangible fixed assets are accounted for at valuation on receipt.

9. Repairs and Maintenance

The University has established a long-term plan for repairs and maintenance which ensures that the buildings remain in their current state of repair. The costs of repairs and maintenance are charged to the Income and Expenditure Account as incurred, unless they fulfil the capitalisation criteria described in paragraph 6.

10. Leased Assets

Where assets are financed by leasing arrangements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright and the corresponding liability to the leasing company is included as an obligation under finance leases. Depreciation on leased assets is charged to the Income and Expenditure on the same basis as above. Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the Income and Expenditure Account over the period of the lease.

All other leases are operating leases and the annual rentals payable are charged to the Income and Expenditure Account

11. Investments

Fixed Asset Investments are included in the Balance Sheet at market value. Increases/decreases in value arising on the revaluation of Fixed Asset Investments are carried to the Revaluation Reserve. Where a permanent diminution in value of an asset occurs, the excess will be charged to the Income and Expenditure Account to the extent it is not covered by a revaluation surplus.

Endowment Asset Investments are carried at market value. Such investments held at the previous year end, and carried at market value at that date, may be sold during the year. This crystallizes the value and any difference between the opening market value and the sale proceeds represents a revaluation movement. Consequently, the financial statements do not distinguish between the valuation adjustment relating to sales and those relating to continuing holdings as they are together treated as changes in the values of the investment portfolio.

Current Asset Investments are included at the lower of cost and net realisable value.

12. Stocks

Stocks for building maintenance and for resale are included at the lower of cost and net realisable value.

Consumable items are charged directly to the Income and Expenditure Account.

Statement of Principal Accounting Policies and Estimation Techniques (continued)

The Accounts for the year ended 31 July 2009

13. Pensions

Retirement benefits for employees of the University are provided by defined benefit schemes, which are funded by contributions from the University and employees.

The two principal pension schemes for the University's staff are the Universities' Superannuation Scheme (USS) for academic and academic-related staff, and the University of Birmingham Pension and Assurance Scheme (BPAS) for other staff. The schemes are defined benefit schemes which are externally funded and contracted out of the State Earnings-Related Pension Scheme. The University also introduced from 1 April 2008 a new 'defined contribution' pension scheme for its support staff who are not members of BPAS.

The assets of the USS scheme are held in a separate trustee-administered fund. The institution is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

As required by FRS 17 'Retirement benefits', the difference between the fair value of the assets held in BPAS and the scheme's liabilities is recognised in the University's balance sheet as a pension scheme asset or liability as appropriate. Changes in the BPAS scheme asset or liability arising from factors other than cash contribution by the University are charged to income and expenditure or to the statement of total recognised gains and losses in accordance with FRS 17 'Retirement Benefits'.

14. Provisions

Provisions are recognised when the University has a present legal or constructive obligation as a result of a past event, when it is probable that a transfer of economic benefit will be incurred, and this transfer can be reliably estimated.

15. Cash Flows and Liquid Resources

Cash flows comprise increases and decreases in cash. Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty.

Liquid Resources comprise assets held as a readily disposable store of value. They include term deposits, government securities and loan stock held as part of the University's treasury management activities. They exclude any such assets held as Endowment Asset Investments.

The institution uses derivative financial instruments called interest rate swaps to reduce exposure to interest rate movements. Such derivative financial instruments are not held for speculative purposes and relate to actual assets or liabilities or to probable commitments, changing the nature of the interest rate by converting a fixed rate to a variable rate, or vice versa. Interest differentials under these swaps are recognised by adjusting net interest payable over the periods of the contracts.

Consolidated Income and Expenditure Account

For the year ended 31 July 2009

	Note	2008/09 £000	2007/08 £000
Income			
Funding Council Grants	1	144,111	135,941
Academic Fees and Support Grants	2	104,592	90,782
Research Grants and Contracts	3	98,075	89,522
Other Operating Income	4	87,031	84,503
Endowment Income and Interest Receivable	5	<u>7,190</u>	<u>10,853</u>
Total Income		<u>440,999</u>	<u>411,601</u>
Expenditure			
Staff Costs	6	233,353	220,666
Depreciation	7	44,384	38,641
Other Operating Expenses	7	137,955	133,787
Interest Payable	8	<u>171</u>	<u>66</u>
Total Expenditure	7	<u>415,863</u>	<u>393,160</u>
Operating Surplus		25,136	18,441
Corporation Tax	9	<u>(140)</u>	<u>(154)</u>
Surplus for the Year after Taxation		24,996	18,287
Minority Interest		<u>(73)</u>	<u>(100)</u>
Surplus after Minority Interest and Taxation		24,923	18,187
Deficit for the year to accumulated income in endowment funds		<u>(352)</u>	<u>(344)</u>
Surplus for the Year		<u>24,571</u>	<u>17,843</u>
There were no discontinued operations during 2008/09 or 2007/08.			
Note of Historical Cost Surpluses and Deficits			
Surplus for the Year		24,571	17,843
Difference between Historical Cost Depreciation and the actual charge based on the revalued amount.		<u>624</u>	<u>624</u>
Historical Cost Surplus		<u>25,195</u>	<u>18,467</u>

Balance Sheets

For the year ended 31 July 2009

		Consolidated		University	
	Note	2009 £000	2008 £000	2009 £000	2008 £000
Fixed Assets					
Tangible Assets	10	540,083	530,391	521,089	510,492
Investments	11	23,878	26,813	21,793	23,419
		563,961	557,204	542,882	533,911
Endowment Asset Investments	12	71,184	72,480	71,184	72,480
Current Assets					
Stocks and stores in hand		730	778	667	689
Debtors and prepayments	13	43,476	43,367	48,358	47,057
Investments		74,127	42,298	74,127	42,837
Cash at bank and in hand		12,998	5,107	8,722	2,123
		131,331	91,550	131,874	92,706
Creditors:					
Amounts falling due within one year	14	(106,637)	(78,583)	(106,807)	(77,019)
Net Current Assets		24,694	12,967	25,067	15,687
Total Assets less Current Liabilities		659,839	642,651	639,133	622,078
Creditors:					
Amounts falling due after more than one year	15	–	(344)	(287)	(822)
Provisions for Liabilities and Charges	16	(2,478)	(4,633)	(690)	(2,934)
Net Assets excluding Pension Fund Liabilities		657,361	637,674	638,156	618,322
Pension Fund Liability	29	(68,500)	(29,800)	(68,500)	(29,800)
Total Net Assets		588,861	607,874	569,656	588,522

Balance Sheets (continued)

For the year ended 31 July 2009

		Consolidated		University	
	Note	2009 £000	2008 £000	2009 £000	2008 £000
Represented by:					
Deferred Capital Grants	17	136,525	136,987	135,817	136,240
Endowments					
Expendable	18	5,385	3,866	5,385	3,866
Permanent	18	65,799	68,614	65,799	68,614
		<u>71,184</u>	<u>72,480</u>	<u>71,184</u>	<u>72,480</u>
Reserves					
Income and Expenditure Account excluding pension reserve	19	402,814	379,147	387,815	364,817
Pension Reserve	19	(68,500)	(29,800)	(68,500)	(29,800)
Revaluation Reserve	19	44,144	46,023	43,340	44,785
Minority Interest		2,694	3,037	–	–
		<u>381,152</u>	<u>398,407</u>	<u>362,655</u>	<u>379,802</u>
Total Funds		<u>588,861</u>	<u>607,874</u>	<u>569,656</u>	<u>588,522</u>

The financial statements on pages 19 to 50 were approved by the Council on 26 November 2009 and signed on its behalf by:

Professor David Eastwood, Vice-Chancellor and Principal

Michael Gilbert, BSc, FCA Treasurer

Consolidated Cash Flow Statement

For the year ended 31 July 2009

	<i>Note</i>	2008/09 £000	2007/08 £000
Net Cash Inflow from Operating Activities	24	72,012	9,872
Returns on Investments and Servicing of Finance	25	6,519	8,887
Taxation		(73)	(38)
Capital Expenditure and Financial Investment	26	<u>(31,704)</u>	<u>(51,434)</u>
Net Cash Inflow/(Outflow) before Financing	28	46,754	(32,713)
Financing	27	(344)	(343)
Increase/(Decrease) in Cash in the Year	28	<u>46,410</u>	<u>(33,056)</u>
Reconciliation of Net Cash Flow to Movement in Net Funds			
Increase/(Decrease) in Cash in the Year		46,410	(33,056)
Repayment of Debt	27	344	343
Increase/(Decrease) in Net Funds		<u>46,754</u>	<u>(32,713)</u>
Net Funds at 1 August		57,416	90,129
Net Funds at 31 July	28	<u>104,170</u>	<u>57,416</u>

Consolidated Statement of Recognised Gains and Losses

For the year ended 31 July 2009

	<i>Note</i>	2008/09 £000	2007/08 £000
Surplus after Depreciation of Assets at Valuation and Tax		24,571	17,843
Depreciation of Endowment Asset Investments	18	(5,944)	(6,069)
Revaluation of Fixed Asset Investments	19	(1,255)	(856)
Endowment Income Transfer from Accumulated Reserve		352	344
New Endowments	18	4,968	957
Actuarial Loss on Pension Fund	29	(40,900)	(32,100)
Total Recognised Losses Relating to the Year		<u>(18,208)</u>	<u>(19,881)</u>
Prior Year Adjustment	20	-	309
Total Recognised Losses since the last accounting period		<u>(18,208)</u>	<u>(19,572)</u>

Reconciliation of Reserves and Endowments

Opening Reserves and Endowments – as previously published		467,850	487,422
Prior Year Adjustment	20	-	309
Opening Reserves and Endowments – restated		<u>467,850</u>	<u>487,731</u>
Total Recognised Losses for the Year		(18,208)	(19,881)
Closing Reserves and Endowments		<u>449,642</u>	<u>467,850</u>

Notes to the Accounts

For the year ended 31 July 2009

	<i>Note</i>	2008/09	2007/08
		£000	£000
1. Funding Council Grants			
Teaching Recurrent Grant from HEFCE		80,701	74,726
Research Recurrent Grant from HEFCE		44,276	42,999
Other Grants from HEFCE		7,508	5,894
Training Development Agency Grants		2,615	2,484
Deferred Capital Grants Released	17	9,011	9,838
		144,111	135,941

2. Academic Fees and Support Grants

Undergraduate Tuition – Home and EU Students	45,649	36,801
Undergraduate Tuition – Other Students	15,053	13,412
Postgraduate Tuition – Home and EU Students	14,617	14,324
Postgraduate Tuition – Other Students	21,932	19,273
Other Courses	4,036	3,753
Research, Training and Support Grants	3,305	3,219
	104,592	90,782

3. Research Grants and Contracts

Research Councils	35,680	33,300
UK Based Charities	23,032	21,718
UK Central/Local Government, Health and Hospital Authorities	21,246	17,951
UK Industry, Commerce and Public Corporations	7,453	7,570
EU Government Bodies	7,157	5,681
EU Other	868	631
Other Overseas	1,731	1,504
Other Sources	908	1,167
	98,075	89,522

Income from research grants and contracts includes £8,811k (2007/8 £5,702k) in respect of deferred capital grants released.

Notes to the Accounts (continued)

For the year ended 31 July 2009

	Note	2008/09 £000	2007/08 £000
4. Other Operating Income			
Residences, Catering and Conferences		28,619	22,503
Other Services Rendered		17,123	20,325
Externally Funded Posts – Health Authorities		12,782	11,852
Self-Financing Teaching Activities		4,598	4,497
Rented Properties and University Centre Lettings		1,472	1,251
Day Nursery and Health Centre		1,533	1,457
Release of Deferred Capital Grants		802	713
Barber Trust		1,016	1,000
VAT Refund		1,180	1,252
Other Income		17,906	19,653
		<u>87,031</u>	<u>84,503</u>
5. Endowment Income and Interest Receivable			
Income from Permanent Endowment Investments	18	2,649	2,502
Income from Restricted Expendable	18		
Endowment Investments		145	144
Income from Short Term Investments		2,573	5,588
Net Return on Pension Scheme		500	1,900
Other Investment Income		1,323	719
		<u>7,190</u>	<u>10,853</u>
6. Staff			
Staff Costs:			
Wages and Salaries		192,344	181,966
Social Security Costs		15,950	15,409
Other Pension Costs	29	25,059	23,291
		<u>233,353</u>	<u>220,666</u>
Emoluments of the Vice-Chancellor :			
Professor Michael Sterling			
Salary and Benefits		222	292
Pension Contributions to USS		29	40
		<u>251</u>	<u>332</u>
Professor David Eastwood			
Salary and benefits		88	–
Pension contributions to USS		13	–
		<u>101</u>	<u>–</u>

The emoluments shown are in respect of Professor Michael Sterling for the period until 31 March 2009 and Professor David Eastwood for the subsequent period. They have been independently determined by the lay officers of the Council and reviewed according to performance.

Notes to the Accounts (continued)

For the year ended 31 July 2009

2008/09	2007/08
Number	Number

6. Staff – continued

Average staff numbers by major category:

Academic and related/Clinical	3,677	3,650
Other, including Technical, Clerical and Manual	2,362	2,400
	<u>6,039</u>	<u>6,050</u>

Remuneration of other higher paid staff, excluding employer's pension contributions but including payments made on behalf of the NHS in respect of its contractual obligations to University staff under separate NHS contracts of employment and which are included in the University's Income and Expenditure Account:

£100,000 – £110,000	22	20
£110,001 – £120,000	14	13
£120,001 – £130,000	9	5
£130,001 – £140,000	10	12
£140,001 – £150,000	9	11
£150,001 – £160,000	9	8
£160,001 – £170,000	9	5
£170,001 – £180,000	3	9
£180,001 – £190,000	3	1
£190,001 – £200,000	3	5
£200,001 – £210,000	4	1
£230,001 – £240,000	–	1
£240,001 – £250,000	1	1
£260,001 – £270,000	–	1
£280,001 – £290,000	–	1

Notes to the Accounts (continued)

For the year ended 31 July 2009

7. Analysis of Expenditure by Activity	Staff Costs	Depreciation	Other Operating Expenses	Interest Payable	Total 2008/09	Total 2007/08
	£000	£000	£000	£000	£000	£000
Academic Schools						
Core Teaching and Research	123,946	4,899	20,401	–	149,246	141,585
Research Grants and Contracts	43,894	8,811	22,162	–	74,867	68,301
Student Support	–	–	22,200	–	22,200	19,351
Other Trading	4,182	54	6,217	–	10,453	10,605
	<u>172,022</u>	<u>13,764</u>	<u>70,980</u>	<u>–</u>	<u>256,766</u>	<u>239,842</u>
Academic Services						
Information Services	11,941	4,538	8,511	–	24,990	21,837
Other Academic Services	11,981	774	5,482	–	18,237	17,203
	<u>23,922</u>	<u>5,312</u>	<u>13,993</u>	<u>–</u>	<u>43,227</u>	<u>39,040</u>
Premises						
Energy and Utilities	571	735	7,843	–	9,149	8,428
Repairs and General Maintenance	3,544	1,328	5,846	–	10,718	10,352
Depreciation of Buildings	–	17,351	–	–	17,351	15,014
Other	6,499	513	322	–	7,334	7,930
	<u>10,614</u>	<u>19,927</u>	<u>14,011</u>	<u>–</u>	<u>44,552</u>	<u>41,724</u>
Administration and Services						
Administrative Services	10,948	102	5,771	152	16,973	16,606
Audit Fees	–	–	98	–	98	95
Fees to Auditor for Non-Audit Work	–	–	78	–	78	72
Sports Facilities	1,820	164	1,664	–	3,648	3,462
Health, Nursery and Counselling Services	4,107	101	1,437	–	5,645	5,948
Grant to Guild of Students (Note 33)	–	–	1,772	–	1,772	1,380
	<u>16,875</u>	<u>367</u>	<u>10,820</u>	<u>152</u>	<u>28,214</u>	<u>27,563</u>
Residences Catering and Conferences						
Residences	1,061	100	6,084	19	7,264	10,635
Catering and Conferences	5,067	105	6,195	–	11,367	10,702
Depreciation of Buildings	–	4,487	–	–	4,487	3,490
	<u>6,128</u>	<u>4,692</u>	<u>12,279</u>	<u>19</u>	<u>23,118</u>	<u>24,827</u>
Other Expenditure						
Other Services Rendered	3,792	322	9,779	–	13,893	18,765
Writedown of Investment Properties	–	–	3,410	–	3,410	–
Other	–	–	2,683	–	2,683	1,399
	<u>3,792</u>	<u>322</u>	<u>15,872</u>	<u>–</u>	<u>19,986</u>	<u>20,164</u>
Total	<u>233,353</u>	<u>44,384</u>	<u>137,955</u>	<u>171</u>	<u>415,863</u>	<u>393,160</u>

The Depreciation charge has been funded by:
 Deferred Capital Grants Released (Note 17)
 General Income

18,663
 25,721
44,384

Notes to the Accounts (continued)

For the year ended 31 July 2009

8. Interest Payable	2008/09	2007/08
	£000	£000
Swap Interest	152	–
Loan Interest	19	66
	171	66

9. Tax on Profit on Ordinary Activities

United Kingdom corporation tax at 30% on subsidiary company profits:

Current Year	(202)	(74)
Prior Year	–	(14)
Deferred tax – due to timing differences in a subsidiary company	62	(66)
Total Payable	(140)	(154)

10. Tangible Fixed Assets

Consolidated	Assets in the Course of Construction £000	Land and Buildings £000	Equipment £000	Consolidated Total £000
Cost or Valuation				
Valuation	–	47,676	–	47,676
Cost	<u>60,302</u>	<u>519,206</u>	<u>51,218</u>	630,726
As at 1 August 2008	60,302	566,882	51,218	678,402
Additions at Cost	1,067	31,409	21,606	54,082
Disposals at Cost	–	–	(14,376)	(14,376)
Transfers at Cost	(58,627)	58,627	–	–
As at 31 July 2009:				
Valuation	–	47,676	–	47,676
Cost	<u>2,742</u>	<u>609,242</u>	<u>58,448</u>	670,432
	<u>2,742</u>	<u>656,918</u>	<u>58,448</u>	718,108

Notes to the Accounts (continued)

For the year ended 31 July 2009

10. Tangible Fixed Assets continued

Consolidated	Assets in the Course of Construction £000	Land and Buildings £000	Equipment £000	Consolidated Total £000
Accumulated Depreciation				
As at 1 August 2008 – Valuation	–	6,114	–	6,114
As at 1 August 2008 – Cost	–	108,847	33,050	141,897
Charge for the Year – Valuation	–	624	–	624
Charge for the Year – Cost	–	24,701	19,059	43,760
Depreciation on Disposals – Cost	–	–	(14,370)	(14,370)
As at 31 July 2009 – Valuation	–	6,738	–	6,738
As at 31 July 2009 – Cost	–	133,548	37,739	171,287
As at 31 July 2009:	–	140,286	37,739	178,025
Net Book Value				
Valuation	–	40,938	–	40,938
Cost	2,742	475,694	20,709	499,145
Net Book Value as at 31 July 2009	<u>2,742</u>	<u>516,632</u>	<u>20,709</u>	<u>540,083</u>
Net Book Value as at 31 July 2008	<u>60,302</u>	<u>451,921</u>	<u>18,168</u>	<u>530,391</u>

The accumulated cost of Assets in the Course of Construction includes:

	£000
Chancellor's Court	643
Medical School Steam Main	2,099
	<u>2,742</u>

Leasehold Land and Buildings

The value of land and buildings shown above represents freehold interests except for the following:

	Valuation £000	Depreciation in year £000	Accumulated Depreciation £000	Net Book Value £000
Medical School	45,278	762	5,093	40,185
– on land leased in 1933 for 999 years from Birmingham City Council				
Clinical Research Building	3,106	62	684	2,422
– leased in 1953 for 75 years from the NHS				
Residential leasehold properties	775	26	284	491
	<u>49,159</u>	<u>850</u>	<u>6,061</u>	<u>43,098</u>

The reinstatement cost of buildings for insurances purposes is £1,398m (2008 £1,372m). In addition the University occupies space in a number of NHS owned properties for which it pays no rent due to the existence of longstanding reciprocal cost sharing arrangements.

Exchequer Funded Assets

Of the buildings above there exists an exchequer interest. It is a condition of funding imposed by the Secretary of State and the Treasury that no transaction involving these assets should be entered into without the prior approval of the Higher Education Funding Council for England.

Fully depreciated equipment is written out after 3 years and shown as a disposal and a depreciation adjustment.

Notes to the Accounts (continued)

For the year ended 31 July 2009

10. Tangible Fixed Assets continued

University	Assets in the course of Construction £000	Land and Buildings £000	Equipment £000	University Total £000
Cost or Valuation				
Valuation	–	47,676	–	47,676
Cost	60,302	489,749	50,907	600,958
As at 1 August 2008	<u>60,302</u>	<u>537,425</u>	<u>50,907</u>	648,634
Additions at Cost	1,067	31,409	21,606	54,082
Disposals at Cost	–	–	(14,370)	(14,370)
Transfers at Cost	(58,627)	58,627	–	–
As at 31 July 2009:				
Valuation	–	47,676	–	47,676
Cost	2,742	579,785	58,143	640,670
	<u>2,742</u>	<u>627,461</u>	<u>58,143</u>	688,346
Accumulated Depreciation				
As at 1 August 2008 – Valuation	–	6,114	–	6,114
As at 1 August 2008 – Cost	–	99,263	32,765	132,028
Charge for the Year – Valuation	–	624	–	624
Charge for the Year – Cost	–	23,812	19,049	42,861
Depreciation on Disposals – Cost	–	–	(14,370)	(14,370)
As at 31 July 2009 – Valuation	–	6,738	–	6,738
As at 31 July 2009 – Cost	–	123,075	37,444	160,519
As at 31 July 2009:	<u>–</u>	<u>129,813</u>	<u>37,444</u>	167,257
Net Book Value				
Valuation	–	40,938	–	40,938
Cost	2,742	456,710	20,699	480,151
Net Book Value as at 31 July 2009	<u>2,742</u>	<u>497,648</u>	<u>20,699</u>	521,089
Net Book Value as at 31 July 2008	<u>60,302</u>	<u>432,048</u>	<u>18,142</u>	510,492

Notes to the Accounts (continued)

For the year ended 31 July 2009

11. Fixed Asset Investments

	Consolidated		University	
	2009 £000	2008 £000	2009 £000	2008 £000
Balance at 1 August	26,813	17,639	23,419	11,295
Additions	1,785	10,055	1,705	12,955
Transfer from Current Asset Investments	361	–	900	–
Writedown to Income and Expenditure	(3,410)	–	(3,410)	–
Depreciation on Disposals and Revaluation	(1,671)	(881)	(821)	(831)
Balance at 31 July	<u>23,878</u>	<u>26,813</u>	<u>21,793</u>	<u>23,419</u>
Represented by:				
Fixed Interest & Bonds	4,737	5,027	4,737	5,027
Equities	1,572	2,352	1,572	2,352
Property	15,270	17,740	9,747	10,908
Investments in Subsidiaries (Note 32)	–	–	3,438	3,438
Other Investments	384	304	384	304
Cash	1,915	1,390	1,915	1,390
	<u>23,878</u>	<u>26,813</u>	<u>21,793</u>	<u>23,419</u>

12. Endowment Asset Investments

	Consolidated and University	
	2009 £000	2008 £000
Balance at 1 August	72,480	77,062
Reclassification	(672)	–
Additions	5,320	5,176
Disposals	–	(3,689)
Depreciation on Disposals and Revaluation	(5,944)	(6,069)
Balance at 31 July	<u>71,184</u>	<u>72,480</u>
Represented by:		
Fixed Interest and Bonds	34,813	36,503
Equities	14,173	17,115
Property	4,568	6,503
Cash	17,630	12,359
	<u>71,184</u>	<u>72,480</u>

Notes to the Accounts (continued)

For the year ended 31 July 2009

13. Debtors

	Consolidated		University	
	2009	2008	2009	2008
	£000	£000	£000	£000
Amounts falling due within one year:				
Research Grants and Contracts	27,811	25,817	27,811	25,817
Other Debtors and Prepayments	14,324	17,550	15,073	16,460
Alta Estate Services Limited	–	–	533	533
Birmingham Research Park Limited	–	–	–	90
	<u>42,135</u>	<u>43,367</u>	<u>43,417</u>	<u>42,900</u>

Amounts falling due after one year:

Alta Estates Services Limited	–	–	3,600	4,134
Birmingham Research Park Limited	–	–	–	23
Other Debtors and Prepayments	1,341	–	1,341	–
	<u>1,341</u>	<u>–</u>	<u>4,941</u>	<u>4,157</u>
	<u>43,476</u>	<u>43,367</u>	<u>48,358</u>	<u>47,057</u>

14. Creditors: Amounts Falling due within one year

	Consolidated		University	
	2009	2008	2009	2008
	£000	£000	£000	£000
Loans Repayable By Instalments	344	344	344	344
Research Grants and Contracts in Advance	26,797	23,586	26,797	23,586
Corporation Tax	54	74	–	–
Social Security and Other Taxation Payable	5,725	5,434	5,544	5,379
Trade Creditors	7,334	8,894	7,294	8,875
Accruals and Deferred income	3,849	7,195	3,553	5,765
Other Creditors	62,534	33,056	63,275	33,070
	<u>106,637</u>	<u>78,583</u>	<u>106,807</u>	<u>77,019</u>

15. Creditors: Amounts Falling due after more than one year

	Consolidated		University	
	2009	2008	2009	2008
	£000	£000	£000	£000
Loan repayable by Instalments, within 5 years	<u>–</u>	<u>344</u>	<u>287</u>	<u>822</u>

The loan is repayable in quarterly instalments and incurs interest at 0.5% above Bank of England base rate.

The University has two Interest SWAP transactions with Barclays and one with the National Bank of Australia, for £5m. Each SWAP transaction incorporates a fixed rate, which is compared with a variable 3 month LIBOR interest rate. The University incurs an interest charge when the SWAP rate is less than the 3 month LIBOR rate, and receives interest where the variable LIBOR interest rate exceeds the SWAP. Both of the Barclays SWAPs expire in 2021, while the National Bank of Australia SWAP expires in 2026.

Notes to the Accounts (continued)

For the year ended 31 July 2009

16. Provisions for Liabilities and Charges

	Consolidated		University	
	2009	2008	2009	2008
	£000	£000	£000	£000
Restructuring				
At 1 August	159	600	159	600
Utilised during the year	(130)	(537)	(130)	(537)
Provided in year	152	96	152	96
At 31 July	181	159	181	159
Contract Termination Provision				
At 1 August	2,775	–	2,775	–
Utilised during the year	(2,775)	–	(2,775)	–
Provided in year	–	2,775	–	2,775
At 31 July	–	2,775	–	2,775
Other Provisions				
At 1 August	–	–	–	–
Utilised during the year	–	–	–	–
Provided in year	509	–	509	–
At 31 July	509	–	509	–
Deferred Taxation				
At 1 August	1,699	1,633	–	–
Provided in year (Note 9)	89	66	–	–
At 31 July	1,788	1,699	–	–
Total at 31 July	2,478	4,633	690	2,934
Analysis of Deferred Taxation:				
Accelerated capital allowances	1,638	1,758	–	–
Less unutilised tax losses	–	(59)	–	–
Other timing differences	150	–	–	–
At 31 July	1,788	1,699	–	–

17. Deferred Capital Grants

	Consolidated		University
	Other Grants and Benefactions	Funding Council	Total
	£000	£000	£000
At 1 August 2008			
Buildings	24,092	103,704	127,796
Equipment	7,068	2,123	9,191
	31,160	105,827	136,987
Cash Received			
Buildings	1,132	2,742	3,874
Equipment	12,973	1,354	14,327
Released to Income and Expenditure			
Buildings	(841)	(7,018)	(7,859)
Equipment	(8,811)	(1,993)	(10,804)
At 31 July 2009			
Buildings	24,383	99,428	123,811
Equipment	11,230	1,484	12,714
	35,613	100,912	136,525

Notes to the Accounts (continued)

For the year ended 31 July 2009

18. Endowments

	Consolidated and University				
	Unrestricted Permanent £000	Restricted Permanent £000	Total Permanent £000	Restricted Expendable £000	Total £000
Balance at 31 July 2008	8,947	59,667	68,614	3,866	72,480
Reclassification	15,854	(16,645)	(791)	791	–
Transferred to Income and Expenditure Account	(672)	–	(672)	–	(672)
Restated Balance at 1 August 2008	<u>24,129</u>	<u>43,022</u>	<u>67,151</u>	<u>4,657</u>	<u>71,808</u>
Additions	2,584	855	3,439	1,529	4,968
Depreciation of Endowment Asset Investments	(2,050)	(3,567)	(5,617)	(327)	(5,944)
Income for Year	1,004	1,645	2,649	145	2,794
Transfer between Endowments	25	30	55	(55)	–
Expenditure	(1,004)	(874)	(1,878)	(564)	(2,442)
At 31 July 2009	<u>24,688</u>	<u>41,111</u>	<u>65,799</u>	<u>5,385</u>	<u>71,184</u>
Represented by					
Capital	24,688	39,574	64,262	5,239	69,501
Accumulated income	–	1,537	1,537	146	1,683
	<u>24,688</u>	<u>41,111</u>	<u>65,799</u>	<u>5,385</u>	<u>71,184</u>

19. Income and Expenditure Account

	Consolidated	University
	£000	£000
General reserves		
Balance at 31 July 2008	379,147	364,817
Reclassification of Endowments	672	672
Surplus Retained for the Year	24,571	23,902
Transfer from Revaluation Reserve	624	624
Deduct Pension Surplus	(2,200)	(2,200)
At 31 July 2009	<u>402,814</u>	<u>387,815</u>
Pension Reserve		
Balance at 31 July 2008	(29,800)	(29,800)
Actuarial loss	(40,900)	(40,900)
Surplus Retained within Reserves	2,200	2,200
At 31 July 2009	<u>(68,500)</u>	<u>(68,500)</u>

Notes to the Accounts (continued)

For the year ended 31 July 2009

19. Income and Expenditure Account continued	Consolidated	University
Revaluation Reserve	£000	£000
Balance at 31 July 2008	46,023	44,785
Revaluation in the Year	(1,255)	(821)
Released to Income and Expenditure Account	(624)	(624)
At 31 July 2009	<u>44,144</u>	<u>43,340</u>

The revaluation in the year is due to changes in the market values of investments.

20. Prior Year Adjustments

Consolidated and University

2009	2008
£000	£000

The prior year adjustment relates to a restatement of endowment funds due to the requirements of the 2007 SORP for Higher and Further Education.

<u>–</u>	<u>309</u>
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21. Lease Obligations

The University had no finance lease obligations in 2008/09 or 2007/08.

There were payments of £695k during the year (£693k in 2007/08) in respect of operating leases for equipment which expire between two and five years.

22. Capital Commitments

Consolidated and University

2009	2008
£000	£000

Contracts for Capital Expenditure

<u>70,459</u>	<u>54,706</u>
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Committed expenditure includes: Muirhead (£11.5m), Subways (£9.8m), Clinical Sciences and Education Centre (£8.8m), Medical Steam Main (£5.2m), The Guild (£3.8m) and Fire Precautions work (£3.8m).

As at 31 July 2009 the University had a financial commitment of £8.75m in favour of the University Hospitals Birmingham NHS Foundation Trust relating to the University's planned occupation of the Clinical Sciences Education Centre. This commitment will crystallise during the 2009/10 financial year, upon completion of the new hospital.

23. Contingent Liability

The University is a member of UM Association (Special Risks) Limited, a company limited by guarantee formed to provide a mutual association for terrorism risks. Under the terms of its membership each member acts as insurer and insured. If the association as a whole suffers a shortfall in any underwriting year the members are liable for their prorated share spread using a bank facility over 7 years. No liability has yet arisen under this guarantee.

Notes to the Accounts (continued)

For the year ended 31 July 2009

24. Reconciliation of Operating Surplus to Net Cash from Operating Activities

	Consolidated	
	2008/09	2007/08
	£000	£000
Surplus for the year before taxation	25,136	18,441
Depreciation of fixed assets (Note 10)	44,384	38,641
Deferred capital grants released to income (Note 17)	(18,663)	(16,371)
Returns on Investments and Servicing of Finance (Note 25)	(6,519)	(8,887)
Decrease/(Increase) in stocks	48	(24)
Increase in debtors	(110)	(6,083)
Increase/(Decrease) in creditors	28,450	(2,935)
(Increase)/Decrease in provisions	(2,244)	2,334
Cash payment to pension scheme	–	(12,900)
Pension cost less than contributions payable	(1,700)	(100)
Net return on pension scheme	(500)	(1,900)
Profit from sale of tangible fixed assets	672	–
Writedown of fixed asset investment	3,410	–
Transfers in respect of specific endowments	(352)	(344)
	<u>72,012</u>	<u>9,872</u>
Net Cash Inflow from Operating Activities		

25. Returns on Investments and Servicing of Finance

	Consolidated	
	2008/09	2007/08
	£000	£000
Income from fixed asset investments	1,323	719
Income from endowments	2,794	2,646
Income from short term investments	2,573	5,588
Interest paid	(171)	(66)
	<u>6,519</u>	<u>8,887</u>

26. Capital Expenditure and Financial Investment

	Consolidated	
	2008/09	2007/08
	£000	£000
Tangible assets acquired	(54,082)	(79,037)
Fixed asset investments acquired	(1,625)	(12,955)
Endowment asset investments acquired	(2,736)	(2,776)
Current asset investments held for resale	–	(900)
	<u>(58,443)</u>	<u>(95,668)</u>
Total fixed current and endowment assets acquired		
Receipts from sales of fixed asset investments	525	1,363
Receipts from sales of endowment asset investments	5,271	11,945
Receipts from sales of tangible assets	6	5
Deferred capital grants received	18,201	29,618
Endowments received	2,736	1,303
	<u>(31,704)</u>	<u>(51,434)</u>

27. Analysis of Changes in External Financing During the Year Consolidated

	2008/09	2008/09
	£000	£000
Balance at 1 August	688	1,031
Capital repayments	(344)	(343)
Balance at 31 July	<u>344</u>	<u>688</u>

Notes to the Accounts (continued)

For the year ended 31 July 2009

28. Analysis of Changes in Net Funds

Consolidated

	At 1 August 2008	Cash Flows	At 31 July 2009
	£000	£000	£000
Short term deposits repayable on demand	39,248	32,723	71,971
Fixed asset investments	1,390	525	1,915
Endowment asset investments	12,359	5,271	17,630
Cash in hand, and at bank	5,107	7,891	12,998
	58,104	46,410	104,514
Debt due within one year	(344)	–	(344)
Debt due after one year	(344)	344	–
Net Funds	57,416	46,754	104,170

29. Pension Schemes

Pension arrangements are funded by employee and employer contributions to pension schemes that are financially separate from the University. Staff paid on academic and academically-related scales who are eligible, acquire pension rights through the Universities Superannuation Scheme (USS), which is a national scheme administered by a separate company on behalf of all universities. Some staff contribute to private schemes. Staff on other salary scales may be covered by the University of Birmingham Pension and Assurance Scheme (BPAS), administered in-house by a Trustee Group comprising four employer nominated and four employees nominated Trustees with an independent Chair. Management of the Scheme's investments is undertaken by UBS Global Asset Management Ltd.

Both schemes provide benefits based on final pensionable salary and the pension cost is assessed using the projected unit method for USS and a modified aggregate funding method for BPAS.

The total pension cost for each Scheme for the University is as follows:-

	2008/09 £000	2007/08 £000
USS	18,200	16,778
BPAS	4,200	4,400
Other Pension Schemes	2,659	2,113
Total Pension Costs (Note 6)	25,059	23,291

Universities Superannuation Scheme (USS)

The Institution participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. USS has over 130,000 active members and the institution has 3,159 active members participating in the scheme.

The appointment of directors to the board of the trustee is determined by the company's Articles of Association. Four of the Directors are appointed by Universities UK; three are appointed by the University and College Union, of whom at least one must be a USS pensioner member; one is appointed by the Higher Education Funding Councils; and a minimum of two and a maximum of four are co-opted directors appointed by the management committee. Under the scheme trust deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

Because of the mutual nature of the scheme, the institution is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 "Retirement benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The latest actuarial valuation of the scheme was at 31 March 2008. This was the first valuation for USS under the new scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions.

Notes to the Accounts (continued)

For the year ended 31 July 2009

The valuation was carried out using the projected unit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e the valuation rate of interest), the rates of increase in salary and pensions and the assumed rates of mortality. The financial assumptions were derived from market yields prevailing at the valuation date. An "inflation risk premium" adjustment was also included by deducting 0.3% from the market-implied inflation on account of the historically high level of inflation implied by government bonds (particularly when compared to the Bank of England's target of 2% for CPI which corresponds broadly to 2.75% for RPI per annum).

To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.4% per annum (which includes an additional assumed investment return over gilts of 2% per annum), salary increases would be 4.3% per annum (plus an additional allowance for increases in salaries due to age and promotion reflecting historic Scheme experience, with a further cautionary reserve on top for past service liabilities) and pensions would increase by 3.3% per annum.

Standard mortality tables were used as follows:

Male Members' mortality	PA92 MC YoB tables rated down 1 year
Female Members' mortality	PA92 MC YoB tables No age rating

Use of these mortality tables reasonably reflects the actual USS experience but also provides an element of conservatism to allow for further small improvements in mortality rates. The assumed life expectations on retirement at age 65 are:

Males (females) currently aged 65	22.8 (24.8) years
Males (females) currently aged 45	24.0 (25.9) years

At the valuation date, the value of the assets of the scheme was £28,842.6 million and the value of the scheme's technical provisions was £28,135.3 million indicating a surplus of £707.3 million. The assets therefore were sufficient to cover 103% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The actuary also valued the scheme on a number of other bases as at the valuation date. On the scheme's historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts) the funding level was approximately 71%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the Scheme was 107% funded; on a buy-out basis (i.e. assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 79% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, using a AA bond discount rate of 6.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2008 was 104%.

The technical provisions relate essentially to the past service liabilities and funding levels, but it is also necessary to assess the ongoing cost of newly accruing benefits. The cost of future accrual was calculated using the same assumptions as those used to calculate the technical provisions except that the valuation rate of interest assumed asset out performance over gilts of 1.7% per annum (compared to 2% per annum for the technical provisions) giving a discount rate of 6.1% per annum; also the allowance for promotional salary increases was not as high. There is currently uncertainty in the sector regarding pay growth. Analysis has shown very variable levels of growth over and above general pay increases in recent years, and the salary growth assumption built into the cost of future accrual is based on more stable, historic, salary experience. However, when calculating the past service liabilities of the scheme, a cautionary reserve have been included, in addition, on account of the variability mentioned above.

The institution contribution rate required for future service benefits alone at the date of the valuation was 14% of pensionable salaries and the trustee company, on the advice of the actuary, agreed to increase the institution contribution rate to 16% of pensionable salaries from 1 October 2009.

Since 31 March 2008 global investment markets have continued to fall and at 31 March 2009 the actuary has estimated that the funding level under the new scheme specific funding regime had fallen from 103% to 74%. This estimate is based on the funding level at 31 March 2008, adjusted to reflect the fund's actual investment performance over the year and changes in market conditions (market conditions affect both the valuation rate of interest and also the inflation assumption which in turn impacts on the salary and pension increase assumptions).

On the FRS17 basis, using a AA bond discount rate of 7.1% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2009 was 86%. An estimate of the funding level measured on a buy-out basis at that date was approximately 46%.

Surpluses or deficits which arise at future valuations may impact on the institution's future contribution commitment. A deficit may require additional funding in the form of higher contribution requirements, where a surplus could, perhaps, be used to similarly reduce contribution requirements. The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out on the next page:

Notes to the Accounts (continued)

For the year ended 31 July 2009

Assumption	Change in Assumption	Impact on scheme liabilities
Valuation rate of interest	Increase/decrease by 0.5%	Decrease/Increase by £2.2 billion
Rate of pension increases	Increase/decrease by 0.5%	Increase/decrease by £1.5 billion
Rate of salary growth	Increase/decrease by 0.5%	Increase/decrease by £0.7 billion
Rate of mortality	More prudent assumption (move to long cohort future improvements from the medium cohort adopted at the valuation)	Increase by £1.6 billion

USS is a 'last man standing' scheme so that in the event of the insolvency of any of the participating employers in USS, the amount of any pension funding shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation of the scheme.

The trustee believes that over the long-term equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set are designed to give the fund a bias towards equities through portfolios that are diversified both geographically and by sector. The trustee recognises that it would be possible to select investments producing income flows broadly similar to the estimated liability cash flows. However, in order to meet the long-term funding objective within a level of contributions that it considers the employers would be willing to make, the trustee has agreed to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund's liabilities. Before deciding to take investment risk relative to the liabilities, the trustee receives advice from its investment consultant and the scheme actuary, and considers the views of the employers.

The strong positive cash flow of the scheme means that it is not necessary to realise investments to meet liabilities. The trustee believes that this, together with the ongoing flow of new entrants into the scheme and the strength of covenant of the employers enables it to take a long-term view of its investments. Short-term volatility of returns can be tolerated and need not feed through directly to the contribution rate. The actuary has confirmed that the scheme's cash flow is likely to remain positive for the next ten years or more.

The next formal triennial actuarial valuation is due as at 31 March 2011. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

At 31 March 2009, USS had over 130,000 active members and the institution had 3,159 active members participating in the scheme.

The total pension cost for the institution was £18.2m (2008: £16.8m). This includes £1,529k (2008: £1,407k) outstanding contributions at the balance sheet date. The contribution rate payable by the institution was 14% of pensionable salaries.

University of Birmingham Pension and Assurance Scheme (BPAS)

BPAS is contracted out of the State Earnings-Related Pensions Scheme and the management of the Scheme's investments is undertaken by a team of investment managers comprised of UBS Asset Management Ltd. (Equities and Property), Royal London Asset Management Ltd. (Index Linked Securities and Sterling Credit Bonds), Barclays Global Investors Ltd. (Sterling Currency Hedge Fund) and Standard Life Investments (Global Absolute Return Fund). The latest actuarial valuation of the scheme was at the 31 March 2007 and it revealed a funding shortfall as the scheme's assets were less than the technical provisions.

The assumptions which have the most significant impact on the valuation are those relating to the rate of return on investments (i.e. the discount rates pre and post retirement), the rates of increase in salary and pension and the mortality rate. The 2007 valuation utilised differential discount rates pre and post retirement to reflect the nature of the assets held to generate the required returns. The pre retirement discount rate was 7.2% and the post retirement rate was 4.5%. It was assumed that salary increases would be 4.6% with pension increases at 3.1% (for service post 2006 where a pension increase cap of 2.5% applied to some members a rate of 2.25% was used). Improvements in mortality have impacted on all schemes and led to higher liabilities. The 2007 valuation used the standard tables PA92 projected to calendar year 2007 with allowance for future improvements in line with the medium cohort improvement factors from 2007.

The total value of the accrued benefits (Technical Provisions) was £254.4 million and the market value of the assets was £219.9 million leaving a shortfall of £34.5 million. The assets were therefore sufficient to cover 86% of the accrued benefits. The Trustees of the scheme have therefore put a Recovery Plan in place to address the shortfall.

The next valuation will be carried out as at 31 March 2010.

Contributions have been paid by the University at the rate of 14% of employees' pensionable pay. Further payments were made by the University on behalf of those members who have chosen to participate in the salary sacrifice scheme. These contributions were dependent on the benefit option chosen by each member and their age on 1 August 2006 (the date of implementation of this scheme design). Additionally a further £12.9 million was paid in the period ended 31st July 2008 as determined by the Schedule of Contributions agreed by the Scheme Actuary.

Notes to the Accounts (continued)

For the year ended 31 July 2009

The assumptions employed by the Scheme Actuary for the valuation of liabilities as at 31 July 2009, were as follows:

	July 2009	July 2008
Discount Rate	6.0%	6.4%
Salary Growth	5.1%	5.3%
Inflation	3.6%	3.8%
Pension Increases	3.6%	3.8%

The invested assets of the Scheme amounted to £201.1 million (after investment of the additional contribution). The assets and the expected long term rate of return were:

	July 2009		July 2008	
	£million	Rate of Return	£million	Rate of Return
Equities	90.9	8.6%	100.3	8.5%
Property	11.3	7.3%	16.8	7.6%
Corporate Bonds	62.5	6.0%	56.2	6.6%
Index Linked Bonds	18.9	4.6%	22.6	4.8%
Fixed Interest Bonds	1.2	4.6%	4.8	4.8%
Other Assets	16.3	4.6%	16.7	4.8%
Total	<u>201.1</u>		<u>217.4</u>	

The following amounts were measured in accordance with the requirements of Financial Reporting Standard 17:

	July 2009 £million	July 2008 £million
Total market value of assets	201.1	217.4
Present value of scheme liabilities	(269.6)	(247.2)
Deficit in the scheme	<u>(68.5)</u>	<u>(29.8)</u>

The above amounts have been recognised in the financial statements as follows:

	July 2009 £million	July 2008 £million
Net assets excluding pension deficit	657.4	637.7
Pension deficit	(68.5)	(29.8)
Net assets including pension deficit	<u>588.9</u>	<u>607.9</u>
Profit and loss reserve excluding pension deficit	402.8	379.1
Pension deficit	(68.5)	(29.8)
Profit and loss reserve including pension deficit	<u>334.3</u>	<u>349.3</u>

Additionally, in accordance with Financial Reporting Standard 17, the following components of the pensions charge have been recognised in the income and expenditure account and statement of recognised gains and losses:

	July 2009 £million	July 2008 £million
Analysis of amounts charged to Income and Expenditure account:		
Current service cost	4.2	4.4
Finance:		
Interest on pension scheme liabilities	15.6	13.5
Expected return on assets in the pension scheme	(16.1)	(15.4)
Curtailments	(0.6)	0.0
Net credit to other finance income	(1.1)	(1.9)
Total charge before tax	<u>3.1</u>	<u>2.5</u>

Notes to the Accounts (continued)

For the year ended 31 July 2009

Analysis of amounts recognised in Statement of Total Recognised Gains and Losses:	July 2009 £million	July 2009 £million
Loss on assets	29.8	29.4
Experience loss on scheme liabilities	1.3	2.3
Loss on change of assumptions	9.8	0.4
Total Loss before tax	<u>40.9</u>	<u>32.1</u>

The experience gains and losses for the year were as follows:

	2008/09 £million	2007/08 £million	2006/07 £million	2005/06 £million	2004/05 £million
(Loss)/Gain on assets	(29.8)	(29.4)	4.3	(5.2)	(17.4)
Experience (Loss)/Gain on scheme liabilities	(11.1)	(2.3)	(8.0)	2.0	(0.9)
Total (Loss)/Gain recognised in the statement of total recognised gains and losses	(40.9)	(32.1)	30.8	7.9	13.4

Changes in Disclosed Assets and Liabilities

Year Ending	31 July 2009 £million	31 July 2008 £million
Change in Scheme Liabilities		
Scheme liabilities at prior year	247.2	234.8
Employer service cost	4.2	4.4
Interest cost	15.6	13.5
Actuarial Loss	9.8	–
Experience Loss	1.3	2.3
Benefits paid from scheme assets	(7.9)	(7.8)
Curtailments	(0.6)	–
Scheme liabilities at year	<u>269.6</u>	<u>247.2</u>

Change in Scheme Assets

Fair value of assets at prior year end	217.4	222.2
Expected return on assets	16.1	15.4
Actuarial Losses on assets	(29.8)	(29.4)
Employer contributions	5.3	17.4
Benefits paid	(7.9)	(7.8)
Other adjustments	–	(0.4)
Fair value of assets at year end	<u>201.1</u>	<u>217.4</u>

Notes to the Accounts (continued)

For the year ended 31 July 2009

Group Personal Pension Scheme (GPPP)

The University has now introduced from 1 April 2008 a new 'defined contribution' pension scheme for its support staff who are not members of the University of Birmingham Pension and Assurance Scheme (BPAS). The scheme will enable staff to build a fund that can be used to provide a pension on retirement in addition to the normal state pension. The University contributes 10% in addition to an agreed percentage paid by the individual. The scheme operates as a Group Personal Pension Scheme and is run on the University's behalf by Friends Provident.

30. Agency Arrangements

	Consolidated and University			
	Learning Support Funds		Training and Development Agency	
	2008/09 £000	2007/08 £000	2008/09 £000	2007/08 £000
Balances Unspent as at 1 August	128	289	124	95
Funding Council Grants Received	514	638	1,942	2,305
Disbursed to Students	(499)	(780)	(2,048)	(2,276)
Administration Costs	(15)	(19)	–	–
Balances Unspent at 31 July	<u>128</u>	<u>128</u>	<u>18</u>	<u>124</u>

The above grants and bursaries are available solely for students: the University acts only as paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure Account.

The University also received £1.7m (2007/8 £2.2m) from the Funding Council in respect of the Aim Higher initiative, which has been disbursed to colleges in the West Midlands.

31. Related Party Transactions

To capture information on related party transactions the University has circularised members and officers who attend Council, Strategy, Planning and Resources Committee, Investment Committee, Estates Committee and the Trustees of the University of Birmingham Pension and Assurance Scheme.

Due to the nature of the University's operations and the composition of the University's governing body, being drawn from commerce, industry and the public sector, it is inevitable that transactions will take place with organisations in which a member of the governing body has an interest. All such transactions are conducted at arms length and in accordance with the University's Manual of Financial Rules and Procedures with respect to procurement.

No declarations of disclosable interests have been made.

The University has strong links with The Henry Barber Trust which is a separate registered charity incorporated under the Charitable Trustees Incorporation Act 1872. Its charitable objects are:

" to provide funding for the four professional chairs of Law, Jurisprudence, Fine Arts and Music, together with a number of other annuities, scholarships and prizes, the repair, maintenance and equipment of the Institute building, the purchase of works of art and the provision of musical recitals "

The University has not consolidated the financial statements of The Henry Barber Trust because the University has no control or dominant influence over policy decisions. The summarised balance sheet and results for the year ended 31 July 2009 are as follows:

	2008/09 £000	2007/08 £000
Tangible Fixed Assets	27,421	32,470
Investment property	4,235	5,105
Net Current Assets	2,150	1,528
Net Assets/Funds	<u>33,806</u>	<u>39,103</u>
Net movement in Funds for the year	<u>5,207</u>	<u>2,135</u>

The University's Income and Expenditure Account includes a receipt from the Trust of an annual grant of £962k (2007/08 £975k) which forms part of note 4.

Notes to the Accounts (continued)

For the year ended 31 July 2009

32. Subsidiary Undertakings

Name	University Holding	Business Activity
Alta Cyclotron Limited	100%	Preparation and sale of chemicals for clinical use
Alta Estate Services Limited	100%	Operating a Combined Heat and Power plant
Alta Library Services Limited	100%	Provision of Library Services
Birmingham Research and Development Limited	100%	Technology Transfer
Birmingham Research Park Limited	51%	Provision of Accommodation to High Technology Companies
University of Birmingham Selly Oak Educational Trust	100%	Management of Land and Buildings on the Selly Oak Campus
Alta Innovations Limited	100%	Technology Transfer

The subsidiaries are all incorporated in and operate in Great Britain.

The summarised balance sheets and results for the year ended 31 July 2009 are as follows:

	Alta Cyclotron Services Limited	Alta Estate Services Limited	Alta Library Services Limited	Birmingham Research and Development Limited	Birmingham Research Park Limited	University of Birmingham Selly Oak Educational Trust	Alta Innovations Limited
	£000	£000	£000	£000	£000	£000	£000
Tangible Fixed Assets	–	8,777	–	80	5,910	10,207	–
Investments	–	–	–	–	–	–	–
Current Assets	327	2,239	241	1,811	697	–	1,877
	<u>327</u>	<u>11,016</u>	<u>241</u>	<u>1,891</u>	<u>6,607</u>	<u>10,207</u>	<u>1,877</u>
Capital and Reserves	–	4,302	–	1,830	6,206	10,207	555
Creditors	327	4,926	241	61	401	–	1,322
Provisions	–	1,788	–	–	–	–	–
	<u>327</u>	<u>11,016</u>	<u>241</u>	<u>1,891</u>	<u>6,607</u>	<u>10,207</u>	<u>1,877</u>
Profit/(Loss) for the Year	<u>220</u>	<u>226</u>	<u>72</u>	<u>147</u>	<u>203</u>	<u>(177)</u>	<u>130</u>

The University has investments in the following companies:

	£000
Mercia Technology Fund 2	320
Universities UK Limited	64
Waterloo House Limited	2,584

Notes to the Accounts (continued)

For the year ended 31 July 2009

The University also has an interest in the following companies managed through its subsidiaries. These have not been consolidated on grounds of materiality.

	% Holding
Ad Surf Eng Limited	6
Applied Functional Materials Limited	28
Astron Clinica Limited	10
Birmingham Health Science Devices Limited	50
Celentyx Limited	33
Crimson Technologies Limited	10
Practice Management Services Limited	10
Hybrid Systems Limited	25
INTREC Limited	17
McBurney Scientific Limited	16
Metal Nanopowders Limited	36
Neurogenix Limited	42
Ortus Medical Limited	25
Plasgene Limited	40
Scyron Limited	5
Speech Ark Limited	10
U21 Equity Limited	5
Cobra Therapeutics Limited	2
Talis Group Limited	3
Adsfab Limited	<1
1 Limited	<1

33. Guild of Students

The University has not consolidated the financial statements of the Guild of Students because the University has no control or dominant influence over policy decisions. The summarised balance sheet and results for the year ended 31 July 2009 are as follows:

	2008/09	2007/08
	£000	£000
Tangible Fixed Assets	165	225
Investments	5	5
Current Assets	2,659	2,340
	<u>2,829</u>	<u>2,570</u>
Reserves	1,867	1,747
Creditors	962	823
	<u>2,829</u>	<u>2,570</u>
Surplus for the Year	<u>120</u>	<u>222</u>

The University's Income and Expenditure Account reflects payment to the Guild of Students of a Block Grant of £1,772k (Note 7) (2007/08 £1,380k).

Five Year Summary Accounts

Income and Expenditure Account

	2008/09 £000	2007/08 £000	2006/07 £000	2005/06 £000	2004/05 £000
Income					
Funding Council Grants	144,111	135,941	130,467	122,465	114,213
Academic Fees and Support Grants	104,592	90,782	81,526	69,860	66,170
Research Grants and Contracts	98,075	89,522	82,513	76,736	73,609
Other Operating Income	87,031	84,503	86,660	81,323	76,558
Endowment Income and Interest Receivable	7,190	10,853	7,554	4,559	3,809
Total Income	440,999	411,601	388,720	354,943	334,359
Expenditure					
Staff Costs	233,353	220,666	206,209	194,240	181,735
Depreciation	44,384	38,641	36,424	30,704	29,668
Other Operating Expenses	137,955	133,787	129,121	113,706	100,101
Interest Payable	171	66	77	136	2,877
Total Expenditure	415,863	393,160	371,831	338,786	314,381
Operating Surplus before tax and exceptional items	25,136	18,441	16,889	16,157	19,978
Capital Expenditure					
Land and Buildings	32,476	60,274	44,305	40,278	37,309
Equipment	21,606	18,762	16,837	14,370	13,705
Total Capital Expenditure	54,082	79,036	61,142	54,648	51,014
Balance Sheet					
Fixed Assets	563,961	557,204	509,893	495,269	470,597
Endowment Asset Investments	71,184	72,480	77,062	71,292	67,804
Net Current Assets/(Liabilities)	24,695	12,967	42,993	(15,758)	(5,889)
Creditors: Amounts Due After One Year	–	(344)	(687)	(1,032)	(1,379)
Provisions for Liabilities and Charges	(2,478)	(4,633)	(2,233)	(2,157)	(1,932)
Total Net Assets, excluding pension liability	657,362	637,674	627,028	547,614	529,201
Represented By:					
Deferred Capital Grants	136,525	136,987	123,740	106,452	91,533
Endowments	71,184	72,480	77,062	71,292	67,804
Revaluation Reserve	44,145	46,023	47,503	50,107	50,039
Income and Expenditure Reserve	405,508	382,184	378,723	319,763	319,825
Total Funds, excluding pension liability	657,362	637,674	627,028	547,614	529,201

Financial Statistics

Sources of Income

% of Total Income	2008/09	2007/08	2006/07	2005/06	2004/05
	%	%	%	%	%
Grants from Funding Councils (HEFCE and TDA)	32.7	33.0	33.6	34.5	34.2
Tuition Fees – Home and EU	15.3	18.8	17.7	14.3	14.0
Tuition Fees – Overseas	8.4	3.3	3.3	5.4	5.8
Income from Research Grants and Contracts	22.2	21.7	21.2	21.6	22.0
Income from Residences, Catering and Conferences	6.5	5.5	6.8	7.6	7.7
Other Income	14.9	17.7	17.4	16.6	16.3
Total Income	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Analysis of Expenditure

% of Total Expenditure	%	%	%	%	%
Staff Costs	56.1	56.1	55.5	57.3	57.9
Depreciation	10.7	9.8	9.8	9.1	9.5
Other Operating Expenses	33.2	34.1	34.7	33.6	31.8
Interest Payable	0.0	0.0	0.0	0.0	0.8
Total Expenditure	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Operating surplus for the year as a % of total income	5.7%	4.5%	4.4%	4.6%	6.2%
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Indicators of Financial Strength

Ratio of available general funds to total expenditure (days)	115	112	166	106	108
The number of days expenditure that could be sustained from available funds					
Ratio of long-term liabilities to total net assets	0.1%	0.1%	0.2%	0.2%	0.3%
Measures the extent to which an institution is funded by long term debt					

Indicators of Liquidity and Solvency

Ratio of liquid assets to current liabilities	0.8	0.6	1.1	0.2	0.3
Extent to which current liabilities could be met from cash and liquid investments					
Ratio of current assets to current liabilities	1.2	1.2	1.5	0.8	0.9
Extent to which current liabilities could be met from current assets					
Debtor Days	53	57	53	57	65
Days of total income (excluding Funding Council grants) represented by debtors					



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